

BENDIGO COMMUNITY TELCO LIMITED

A.B.N. 88 089 782 203

FINANCIAL STATEMENTS

**for six months ending
31 December 2004**

Registered Office: Level 2, Fountain Court, Bendigo, Victoria, 3550.

Your Directors present their report on the Company for the six months ended 31 December 2004.

DIRECTORS

The Directors of the Company at the date of this report are:

Chairman	Mr R Hunt
Directors	Mr D Erskine
	Ms K Byrne
	Mr L Kilmartin
	Mr G Michell
	Mr G Bastian
Executive Director	Mr A Cairns

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

PRINCIPAL ACTIVITIES

The principal activities of the Company in the course of the financial period were telecommunications services. There were no significant changes in the principal activities of the Company in the course of the financial period.

FINANCIAL RESULTS

The operating profit of the Company after providing for income tax amounted to \$225,593 for the six months to 31 December 2004 (six month to 31 Dec 2003 \$468,237).

DIVIDENDS PAID OR RECOMMENDED

No dividends were paid or recommended by the Directors in the six month period to 31 December 2004.

REVIEW OF OPERATIONS

Bendigo Community Telco Limited has successfully introduced 'single bill' services, providing full service including line rental and locals calls, to its existing customer base. Growth in turnover and market share continued for existing products and services during the six month period.

Negotiations to convert Bendigo Community Telco to a Franchise of Community Developments Australia were held. Until such time as negotiations are completed, Bendigo Community Telco Limited continued to maintain wholesale agreements with AAPT, Camtech, Newsnet, Primus, Optus Networks, Request Broadband, Intercall Australia, Info-In.com, Comindico Australia and Connect Internet.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS AND MATTERS SUBSEQUENT TO BALANCE DATE

There has not been any significant changes in the state of affairs of the Company during the six month period to 31 December 2004. Since the end of the calendar year it has become known that it is anticipated that a capital raising will be conducted in the first half of 2005 with the view to broadening ownership (refer to Note 21), however there have been no other matters or circumstances which have arisen which may significantly affect the operations of the Company in subsequent financial years.

LIKELY DEVELOPMENTS IN OPERATIONS

During the last six months BCT has continued to be involved in negotiations with Community Developments Australia (CDA), a wholly owned subsidiary of Bendigo Bank Limited, to migrate BCT from its current business model to a franchise of CDA. The Franchise Agreement is expected to provide BCT with increased purchasing power through CDA's national aggregated purchasing and also ensure BCT has access to operating and business systems developed by CDA. In return for the franchisee benefits, BCT will be required to pay a franchise fee based on total turnover. The final round of negotiations were completed in the first quarter of the 2005 calendar year.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year end, the Company has paid premiums to insure certain Officers of the Company. The Officers of the Company covered by the insurance policy include the Directors listed above.

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance. The Company has not provided any insurance for an auditor of the Company or a related body corporate.

DIRECTORS BENEFITS AND INTEREST IN CONTRACTS

No Director has received or become entitled to receive during or since the six month period to 31 December 2004, a benefit because of a contract made by the Company with the Director, a firm of which the Director is a member or an entity in which the Director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the Company's accounts, prepared in accordance with the Corporate Regulations, or the fixed salary of full-time employees of the Company, controlled entity or related body corporate other than interests and benefits disclosed at Note 16, 18 and 19 to the Financial Report.

SHARE OPTIONS

The Company has not issued any share options.

PROCEEDINGS

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

DIRECTORS MEETINGS

During the six months ending 31 December 2004 five meetings of Directors were held.

Attendances were:-

Directors' Meetings		
Directors	No. eligible to attend	No. attended
Rob Hunt	5	5
Don Erskine	5	4
Kathy Byrne	5	2
Les Kilmartin	5	5
Graeme Bastian	5	4
Geoff Michell	5	4
Andrew Cairns	5	5

INFORMATION ON DIRECTORS

Mr Robert George Hunt – Chairman

Qualifications

Fellow of Australian Institute of Company Directors (FAICD)
 Doctor of LaTrobe University (honoris causa)

Employment

Managing Director, Bendigo Bank Group

Experience

Other Directorships

BSX Group Holdings Pty Ltd	Prime Minister's Community Business Partnership (Member)
Elders Rural Bank Limited	Victorian Government's Innovation Economy Advisory Board (Member)
Sandhurst Trustees Limited	Business Council of Australia (Member)
Tasmanian Banking Services	LaTrobe University's Bendigo Regional Advisory Board (Member)
Community Energy Australia Pty Ltd	Community Telco Australia Ltd
Community Solutions Australia Pty Ltd	Community Developments Australia Ltd
Lead On Australia	Community Sector Enterprises Pty Ltd
Community Exchanges Australia Pty Ltd	Community Enterprise Foundation (Patron-in-Chief)
Community Sector Banking Pty Ltd	
St Luke's Anglicare (Patron / ex Director)	
Councillor of Australian Bankers Association	

Interest in Shares

Direct – 421,004 Shares
 Indirect – Bendigo Bank Group 1,083,004 Shares

INFORMATION ON DIRECTORS Cont.

Mr Donald James Erskine - Director

Employment

Managing Director – Industrial Conveying (Aust.) Pty Ltd
Managing Director – Bendigo Brick Pty Ltd

Experience

Other Directorships

Bendigo Bank Limited
Chairman – Bendigo Plus

Community Telco Australia Ltd

Previous Appointments

North West Country Credit Union Co Op Ltd Bendigo Economic Development Committee

Interest in Shares

Direct - 0 Shares
Indirect – Erskine Investments Pty Ltd 844,000 Shares
Indirect – Bendigo Bank Groups 1,083,004 Shares

Ms Kathleen Ellen Byrne - Director

Qualifications

MBA (Melb) BHA (NSW) Assoc. Dip. MRA (Cumberland)

Employment

Chief Executive, Bendigo Health Care Group

Experience

Other Directorships

Girton Grammar School Limited
Loddon Mallee Health Alliance Network Ltd
Board of Health Information Systems

LaTrobe Univesity Bendigo, Regional
Advisory Board
Victorian Quality Council

Interest in Shares

Direct – 0 Shares
Indirect – Bendigo Health Care Group 60,000 Shares

INFORMATION ON DIRECTORS Cont.

Mr Graham William Bastian - Director

Qualifications

Dip Engineering – Civil (Swinburne)

Dip Ed (Hawthorn State College)

Employment

Principal – Bendigo Senior Secondary College

Experience

Other Directorships

LaTrobe University Regional Advisory Board

Discovery Science & Technology Centre

Interest in Shares

Direct – 0 Shares

Indirect – Bendigo Senior Secondary College 100,000 Shares

Mr Leslie Alan Kilmartin - Director

Qualifications

B.A. Queensland

PhD LaTrobe University

M.A. Aust. National University

Employment

Higher Education Consultant – The Insight Group & Northern Melbourne Institute of Technology

Experience

Other Directorships:

Australian Ballet School Council

Previous Directorships:

Loddon Mallee Emergency Housing Board

LaTrobe University Council

Bendigo Bank Academy of Sports

Interest in Shares

Direct – 0 Shares

Indirect - 0 Shares

INFORMATION ON DIRECTORS Cont.

Mr Geoffrey Ralph Michell - Director

Qualifications

Diploma of Civil Engineering

Master of Business Administration (Deakin)

Employment

Chief Executive – Coliban Water

Experience

Other Directorships

Chairman – Discovery Science & Technology Centre, Bendigo

Interest in Shares

Direct – 20,002 Shares

Indirect – Coliban Region Water Authority 40,000 Shares

Mr Andrew Cairns - Executive Director

Qualifications

Bachelor of Engineering – Electrical (Footscray Institute of Technology)

Associate Fellow of the Australian Institute of Management

Member of Australian Institute of Company Directors

Employment

Chief Executive Officer of Community Telco Australia Ltd

Experience

Other Directorships

Bendigo Regional Institute of Tafe (BRIT)

Interest in Shares

Direct – 0 Shares

Indirect – 0 Shares

Signed in accordance with a resolution of the Board of Directors



.....
Director



.....
Director

Dated this 30 day of MAY 2005.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes of the Company:
 - a) comply with Accounting Standards and the Corporations Act 2001; and
 - b) give a true and fair view of the financial position and performance of the Company for the six months ending 31 December 2004.

2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Signed in accordance with a resolution of the Directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the Directors


.....
Director


.....
Director

BENDIGO: 30 MAY 2005



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INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF BENDIGO COMMUNITY TELCO LIMITED

Scope

We have audited the financial report of Bendigo Community Telco Limited for six months ending 31 December 2004 as set out on pages 1 to 23 including the Directors' Declaration. The Company's Directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures include examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view which is consistent with our understanding of the company's financial position and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Bendigo Community Telco Limited is in accordance with:

- a. the Corporations Act 2001, including:
 - i. giving a true and fair view of the company's financial position as at 31 December 2004 and of its performance for the six months ended on that date; and
 - ii. complying with Accounting Standards and the Corporations Regulations; and
- b. other mandatory professional reporting requirements.

David Hutchings
ANDREW FREWIN & STEWART

Bendigo
30 May 2005

**STATEMENT OF FINANCIAL PERFORMANCE
 FOR SIX MONTHS ENDED 31 DECEMBER 2004**

	Notes	31 Dec 2004 \$	31 Dec 2003 \$
Total Revenue	1(f), 2, 20	7,081,374	6,109,567
Cost of Products sold		(5,096,881)	(4,290,193)
Gross Margin		1,984,493	1,819,374
Expenditure			
General Administration	3	(267,557)	(354,170)
Salaries & Associated Costs		(721,087)	(609,546)
Advertising & Promotion Costs		(197,710)	(61,959)
Occupancy & Associated Costs		(55,885)	(57,094)
Systems Costs		(323,672)	(155,705)
Depreciation & Amortisation		(97,969)	(95,804)
Borrowing Costs		(19,545)	(16,859)
Total Expenditure		(1,683,425)	(1,351,137)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES BEFORE INCOME TAX EXPENSE		301,068	468,237
Income Tax credit relating to ordinary activities	4	(75,475)	0
PROFIT/(LOSS) FROM OPERATING ACTIVITIES AFTER RELATED INCOME TAX CREDIT		225,593	468,237
TOTAL CHANGES IN EQUITY OTHER THAN THOSE FROM TRANSACTIONS WITH OWNERS AS OWNERS		225,593	468,237

The accompanying notes form an integral part of this
 Statement of Financial Performance

**STATEMENT OF FINANCIAL POSITION
 AS AT 31 DECEMBER 2004**

	Notes	31 Dec 04 \$	30 June 04 \$	31 Dec 03 \$
Current Assets				
Cash Assets	13	943,421	1,273,378	1,033,175
Receivables	1(g), 5	2,427,344	1,647,473	1,622,444
Prepayments		265,526	113,954	129,833
Inventories	1(h)	67,571	71,505	71,507
Intangibles	6	35,770	20,520	-
Total Current Assets		3,739,632	3,126,830	2,856,959
Non Current Assets				
Property Plant & Equipment	1(c), 7	717,543	759,171	643,996
Investments	1(j), 8	250,000	250,000	250,000
Total Non-Current Assets		967,543	1,009,171	893,996
TOTAL ASSETS		4,707,175	4,136,001	3,750,955
Current Liabilities				
Payables		2,070,608	1,754,405	1,787,454
Interest Bearing Liabilities	9	156,975	178,661	186,532
Provisions	1(d), 10	58,792	62,323	66,171
Taxation	1(b), 4	75,475	-	-
Total Current Liabilities		2,361,851	1,995,389	2,040,157
Non-Current Liabilities				
Interest Bearing Liabilities	9	230,913	251,793	125,168
Total Non-Current Liabilities		230,913	251,793	125,168
TOTAL LIABILITIES		2,592,763	2,247,182	2,165,325
NET ASSETS		2,114,412	1,888,819	1,585,630
EQUITY				
Contributed Capital	11	1,938,305	1,938,305	1,938,305
Accumulated Profit/(Losses)	12	176,107	(49,486)	(352,675)
TOTAL EQUITY		2,114,412	1,888,819	1,585,630

The accompanying notes form an integral part of this
 Statement of Financial Position

STATEMENT OF CASH FLOWS

	Notes	2004 \$	2003 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		6,276,170	6,246,810
Interest paid		(19,545)	(16,859)
Cash paid to suppliers and employees		(6,513,008)	(5,735,519)
Interest Received		25,333	17,358
		<hr/>	<hr/>
Net cash used in operating activities	13(b)	(231,050)	511,790
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property plant and equipment		(114,387)	(186,603)
Purchase of shares Community Telco Australia		-	-
Proceeds from sale of property plant and equipment		58,046	-
		<hr/>	<hr/>
Net Cash used in investing activities		(56,341)	(186,603)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	-
Net proceeds of borrowings		(42,566)	(53,679)
		<hr/>	<hr/>
Net cash provided by financing activities		(42,566)	(53,679)
Net increase in cash held during the financial year		(329,957)	271,508
Cash at the beginning of the financial year		1,273,378	761,667
		<hr/>	<hr/>
Cash at the end of the financial year	13(a)	943,421	1,033,175

The accompanying notes form an integral part of this
 Statement of Cash Flows

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

1. Statement of Accounting Policies

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with applicable Accounting Standards, the Corporations Act 2001, and other professional reporting requirements in Australia. They have been prepared on the basis of historical cost and do not take into account changing money values or, except where stated, current valuations of non-current assets.

(b) Income Tax

The Company adopts the liability method of tax effect accounting. Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the Statement of Financial Performance as a future income tax benefit or a provision for deferred income tax. Future income tax benefits are not brought to account unless realisation of the assets is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

(c) Property, Plant and Equipment

Acquisition and Depreciation

Items of property, plant and equipment are recorded at cost and are depreciated over their estimated useful lives on a straight line basis or diminishing value basis.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or estimated useful lives of the improvements.

The depreciation rates used for other depreciable assets are:-

Asset Class	Depreciation Rate
Office Furniture & Equipment	
Advertising Collateral	7.5%
Furniture & Fittings	4.5% - 37.5%
Office Equipment	7.5% - 40%
Computer Equipment	37.5% - 40%
Satellite Equipment	50%
Software	33% - 40%
Business Continuity Centre	2.5% - 33%
Motor Vehicles	18.75% - 22.5%
Leasehold	4.5% - 11.25%
Telecommunications & Infrastructure	
Infrastructure	7.59%
Connectivity Links	20% - 50%

(d) Employee Benefits

Provision is made in respect of the Company's liability for annual, sick and long service leave at balance date when it is probable that settlement will be required and where the liability is capable of being measured reliably. Entitlements are calculated at the employee's current rate of pay at balance date where the provision is expected to be settled within 12 months are measured at the net present value of estimated future cash flows.

Contributions are made to employee Superannuation Funds and are charged as expenses when incurred. The Company has no legal obligations to cover any shortfall in the fund's obligation to provide benefits to employees on retirement.

Long service leave is accrued in respect of all employees with more than five years service with the Company. No employees fall into this category.

(e) Comparative Information

Where necessary the previous year's figures have been reclassified to facilitate comparisons.

(f) Revenue

Revenue from the sale of services is recognised upon delivery of service to customers. Interest revenue is recognised as it accrues.

(g) Receivables

Receivables are carried at their amounts due. The collectability of debts is assessed at balance date and specific provision is made for any doubtful accounts.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a first-in first-out basis and include direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenses.

(i) Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the entities within the economic entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

(j) Investments

Non-current investments are measured on the cost basis. The carrying amount of investments is reviewed annually by Directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value for shares in listed companies or the underlying net assets for other non-listed corporations. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

(k) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australia Tax Office. In these circumstances the GST is recognised as part of the cost of the acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

2. OPERATING PROFIT/(LOSS)

Operating Profit/(Loss) before income tax has been determined as follows:	31 Dec 2004 \$	31 Dec 2003 \$
Interest Income – Cash and Liquid Assets	25,333	260
Proceeds on sale of Fixed Assets	56,155	-
Interest Expense	(3,873)	(5,666)
Bad Debts Written Off	(3,167)	(14,179)
Loss on sale of property plant and equipment	(1,891)	-

3. AUDITORS' REMUNERATION

Amounts received, or due and receivable by the auditors for	31 Dec 2004 \$	31 Dec 2003 \$
Auditing the financial statements	13,104	7,735
Other Services	7,818	4,320

4. INCOME TAX EXPENSE

The prima facie tax payable on operating profit is reconciled to the income tax provided in the financial report as follows:	31 Dec 2004 \$	31 Dec 2003 \$
Operating Profit/(Loss)	301,068	468,237
Prima facie tax credit thereon @ 30%	90,320	140,471
Income tax attributable to operating Profit/(Loss)		
Tax effect of permanent and other differences:		
Benefit of tax losses not recognised	(14,846)	(140,471)
Income tax attributable to operating profit	<u>75,475</u>	<u>0</u>

Bendigo Community Telco Limited
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 Financial Statements for six months ending 31 December 2004

5. RECEIVABLES

	31 Dec 2004 \$	30 June 2004 \$
Trade Debtors	2,477,344	1,698,601
Provision for Doubtful Debts	(50,000)	(51,128)
	2,427,344	1,647,473

6. INTANGIBLE ASSETS

	31 Dec 2004 \$	30 June 2004 \$
Equity Raising Costs Capitalised	35,770	20,520

The Company intends to raise additional shares in the 2004/05 financial year. Costs totalling \$35,770 directly relating to this issue have been incurred as at the balance date. These costs will be recognised directly against the shares issued in accordance with Urgent Issues Group Abstract UIG23.

7. PROPERTY PLANT AND EQUIPMENT

Reconciliation of the carrying amounts of each class of asset at the beginning and end of the current financial year are set out below.

31 Dec 2004	Office, Furniture & Equipment	Motor Vehicles	Leasehold	Telecommunications & Infrastructure	TOTAL
Carrying amount at the start of the year	364,141	269,131	18,724	107,175	759,171
Additions	42,568	71,818	-	-	114,386
Disposals	-	(58,049)	-	-	(58,767)
Depreciation	(62,473)	(24,917)	(633)	(9,942)	(97,247)
Carrying amount at the end of the year	344,236	257,983	18,091	97,233	717,543

8. INVESTMENTS

	31 Dec 2004 \$	30 June 2004 \$
Shares in Community Telco Australia Limited	250,000	250,000

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9. INTEREST-BEARING LIABILITIES

Current Interest-Bearing Liabilities	31 Dec 2004 \$	30 June 2004 \$
Secured by fixed and floating registered mortgage debenture		
Lease Liabilities	90,519	112,205
Bank Loans	66,456	66,456
Total Current Interest-Bearing Liabilities	<u>156,975</u>	<u>178,661</u>
Non-Current Interest-Bearing Liabilities		
Secured by fixed and floating registered mortgage debenture		
Bank Loans	18,107	47,878
Lease Liabilities	212,806	203,915
Total Non-Current Interest-Bearing Liabilities	<u>230,913</u>	<u>251,793</u>

10. CURRENT PROVISIONS

	31 Dec 2004 \$	30 June 2004 \$
Employee Provisions	<u>58,792</u>	<u>62,323</u>

11. CONTRIBUTED CAPITAL

	31 Dec 2004 \$	30 June 2004 \$
Issued and paid up capital		
1,955,005 ordinary shares of \$1.00 each (30 June 2004: 1,955,005 @ \$1.00 each)	1,955,005	1,955,005
Less cost of equity raised	<u>(16,700)</u>	<u>(16,700)</u>
TOTAL CONTRIBUTED CAPITAL	<u>1,938,305</u>	<u>1,938,305</u>

A bonus share issue on a 1:1 basis was issued to existing shareholders on the 16th November, 2004.

12. RETAINED LOSSES

	31 Dec 2004 \$	30 June 2004 \$
Balance at the beginning of the financial year	(49,486)	(820,912)
Net profit/(loss) from ordinary activities after income tax	225,593	468,237
Cost of equity raised	<u>0</u>	
Balance at the end of the reporting period	<u>176,107</u>	<u>(352,675)</u>

13. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of Cash	2004	2003
	\$	\$
Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the profit and loss accounts as follows:		
Cash	943,421	1,033,175
	<u>943,421</u>	<u>1,033,175</u>
 (b) Reconciliation of operating profit to net cashflows from operation activities		
Profit from ordinary activities	225,593	468,237
Depreciation and amortisation of non current assets	97,969	95,804
Change in Assets and Liabilities		
(Increase) / decrease in assets		
Receivables & prepayments	(931,443)	24,768
Stock	3,934	(20,870)
Increase in intangible assets	(15,250)	-
Increase / (decrease) in Liabilities		
Accounts payable & provisions	<u>388,147</u>	<u>(56,149)</u>
Net cash flow from operating activities	<u>(231,050)</u>	<u>511,790</u>

14. LEASES

Disclosures for Lessees

(a) Finance Leases

Leasing arrangements

Finance leases relate to Computer Equipment and Motor Vehicles, all with lease terms of three years. The economic entity has options to purchase the equipment for a nominal amount at the conclusion of the lease arrangements.

	31 Dec 2004	30 June 2004
	\$	\$
Finance Lease Liabilities		
No later than 1 year	109,683	84,122
Later than 1 year and not later than 5 years	<u>224,209</u>	<u>231,998</u>
Minimum finance lease payments	333,892	316,120
Less future finance charges	<u>(30,568)</u>	<u>(32,401)</u>
Finance Lease Liabilities	<u>303,324</u>	<u>283,719</u>

(b) Operating Leases

Leasing arrangements

The operating leases relate to the rental of the business premises at 5 View Point, Bendigo, with a lease term of three years, beginning 1 February 2004 and Business Continuity Centre, Edwards Road, Flora Hill, with a lease term of five years, beginning 1 September 2003. The Company does not have an option to purchase either leased asset at the expiry of the lease periods.

	31 Dec 2004 \$	30 June 2004 \$
Non-cancellable operating leases		
No later than 1 year	116,729	115,445
Later than 1 year and not later than 5 years	257,107	160,061
	373,836	275,506

15. FINANCIAL INSTRUMENTS

15 (a) Terms, conditions and accounting policies

The accounting policies including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at balance date, are as follows:-

Recognised	Accounting Policies	Terms and Conditions
Financial assets		
Notes, coin and cash at bank	Notes, coin and cash at bank are stated at cost and any interest is taken up as income on an accrual basis	These items are cash or are readily convertible to cash.
Accounts Receivable – Debtors	Debtors are carried at the nominal amounts due less any provision for doubtful debts. A doubtful debts provision is made for any amounts which are considered unlikely to be collected.	Credit is allowed for a 30 day term.
Financial liabilities		
Creditors and Accruals	Liabilities are recognised for amounts to be paid in the future for goods and services.	Trade creditors are normally settled on 30 day terms, or in accordance with agreement with individual creditors.

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15 (b)(i) Interest Rate Risk

Financial Instrument	Floating Interest Rate	Fixed Interest maturing in:				Total Carrying Amount per Statement of Financial Position		Weighted Average Effective Interest Rate	
		1 year or less	Over 1 to 5 years	More than 5 years	Non Interest Bearing	31 Dec 2004	30 June 2004	31 Dec 2004	30 June 2004
	\$	\$	\$	\$	\$	\$	%	%	
<i>Financial Assets</i>									
Accounts Receivable – Debtors					2,427,344	2,427,344	1,647,473	N/A	N/A
<i>Financial Liabilities</i>									
Creditors & Accruals					2,070,608	2,070,608	1,754,405	N/A	N/A
Loans		66,456	18,107			84,563	114,334	6.75	6.75
Finance Leases		90,519	212,805			303,324	283,719	7.80	9.42

15 (b)(ii) Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets of Bendigo Community Telco which have been recognised on the Statement of Financial Position is the carrying amount net of any provisions for doubtful debts.

Bendigo Community Telco minimises concentrations of credit risk by undertaking transactions with a large number of customers. Bendigo Community Telco is therefore not materially exposed to any individual customer.

15 (c) Fair Values

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

	Total Carrying Amount per Statement of Financial Position		Aggregate Net Fair Values	
	31 Dec 2004	30 June 2004	31 Dec 2004	30 June 2004
Financial Instruments	\$	\$	\$	\$
<i>Financial Assets</i>				
Accounts Receivable – Debtors	2,427,344	1,647,473	2,427,344	1,647,473
Total Financial Assets	2,427,344	1,647,473	2,427,344	1,647,473

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Financial Liabilities

Creditors and Accruals	2,070,608	1,854,509	2,070,608	1,854,509
Loans	84,563	170,993	84,563	170,993
Finance Leases	303,324	181,886	303,324	181,886
<i>Total Financial Liabilities</i>	2,458,496	2,207,388	2,458,496	2,207,388

The following methods and assumptions are used to determine the net fair values of Financial Assets and Financial Liabilities:

Recognised Financial Instruments

Cash and Short Term Investments These financial instruments have a short term to maturity. Accordingly it is considered that carrying amounts reflect fair values.

Receivable and Creditors and Accruals Carrying amounts reflect fair values.

Long Term Investments Carrying amounts reflect fair values.

16. DIRECTORS' REMUNERATION

	31 Dec 2004	31 Dec 2003
	\$	\$
Total remuneration received or due and receivable by the Directors of the Company for the year ended 30 June 2004 was	Nil	Nil

17. EXECUTIVES REMUNERATION

	31 Dec 2004	31 Dec 2003
	\$	\$
Amounts received or due and receivable from the Company by executive Officers (including executive Directors) whose remuneration is \$100,000 per annum or greater	69,814	55,749

Number of executive Officers whose remuneration was within the following bands:

Range	31 Dec 2004 No.	31 Dec 2003 No.
\$100,000 to \$149,999	1	1
\$150,000 to \$199,999	0	0

18. RETIREMENT BENEFITS AND SUPERANNUATION PAYMENTS

	31 Dec 2004	31 Dec 2003
	\$	\$
Amounts of a prescribed benefit given during the year by the Company or a related party to a Director or prescribed superannuation fund in connection with the retirement from a prescribed office.	Nil	Nil

19. RELATED PARTY DISCLOSURES

Bendigo Community Telco has entered into an agreement with D.J. Erskine Nominees Pty Ltd to lease the property of 5 View Point, Bendigo for a three year period terminating on 31 January 2007. The organisation is majority owned by Director – Mr D.J. Erskine.

Bendigo Community Telco has been engaged with Community Telco Australia throughout the financial year assisting with the development of the CTA Project. The CTA Project involves granting to entities majority owned or controlled by communities the right to use certain intellectual property and shared services to enable the establishment and operation of a business of providing telecommunications services to customer. CTA is a Company established and majority owned by Bendigo Bank Ltd with a 5.6% holding by Bendigo Community Telco. Bendigo Community Telco has entered into a binding licence with CTA in relation to the use of the Community Telco Project.

Bendigo Community Telco is provided banking overdraft and lending facilities by Bendigo Bank Ltd. This is done at commercial rates.

20. FINANCIAL REPORTING BY SEGMENTS

Bendigo Community Telco is a carriage service provider and a retailer of mainstream telecommunications products to businesses and residential customers in the Bendigo and surrounding districts. Bendigo Community Telco delivers a range of telephony, data, mobile, Internet and e-solutions. The revenue received by market segments is shown below:

	31 Dec 2004	31 Dec 2003
	\$	\$
Fixed Telephone Services	2,883,867	2,471,546
Data Network Services	1,895,211	1,742,036
Mobile Telephone Services	628,262	280,657
Traditional Internet Services	429,062	292,179
Broadband Services	288,942	236,877
e-Solutions and Services	2,597	6,795
Inventory and Equipment	159,927	90,443
Satellite Services	5,031	6,220
Business Continuity Centre Services	662,594	736,500
Community Resale Services	113,273	135,901
Other Revenue	12,608	110,414
	7,081,374	6,109,567
TOTAL	7,081,374	6,109,567

21. EVENTS SUBSEQUENT TO BALANCE DATE

It is anticipated that a capital raising will be conducted in the first half of 2005 with the view to broadening ownership of the Company.

No other matters or circumstances have arisen since the end of the financial year, which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years.

22. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

Bendigo Community Telco Limited has commenced transition to accounting policies and financial reporting from current Australia standards to Australian equivalents of International Financial Reporting Standards (IFRS). In consultation with our external auditors, the Company is ensuring that the impact of the transition to IFRS is fully reviewed and completed.

Based on current requirements, the financial statements of the Company prepared at 30 June 2006 will need to comply with IFRS. Comparative figures for the year ended 30 June 2005, within the 30 June 2006 financial statements, will also need to comply with IFRS.

The potential impacts of transition to IFRS have not been fully assessed due to the short timeframe between finalisation of the IFRS standards and completing this report. The impact on future years will depend on circumstances prevailing at the time of preparing relevant financial reports.

The currently identified key potential implications to Bendigo Community Telco Limited of the conversion to IFRS are:-

- a) income tax will be calculated based on the "balance sheet" approach, which may result in more deferred tax assets and liabilities;
- b) changes in accounting policies will be recognised by restating prior year balances, rather than making current year adjustments and the impact will be disclosed in the notes to the financial statements.